

**Statement of
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U.S. Department of Agriculture
Before the Subcommittee on Regulations and Healthcare
U.S. House Committee on Small Business
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Madam Chairman, Members of the Subcommittee, thank you for this opportunity to testify on USDA Rural Development's renewable fuels programs. Biofuels hold great potential for reducing greenhouse gas emissions and improving the nation's energy security and national security. As a distributed resource with a tangible economic incentive for local feedstock sourcing, biofuels are also suited for production by small and mid-sized firms, including producer cooperatives. For rural America, this means that they are not merely another market for farm and forest products; they are also an opportunity for local ownership, new business formation, and sustainable economic development.

Promoting clean, sustainable, domestically produced advanced biofuels is a high priority for the President and for USDA. The United States is already a world leader in biofuels production. At the beginning of the decade, the U.S. produced 1.6 billion gallons of ethanol and two million gallons of biodiesel. Last year, those figures had soared to over 9 billion and 700 million gallons respectively. I would like at the outset of my testimony to acknowledge the vision, dedication, and hard work of a great many people, both in the private sector and in government, who have contributed to that achievement. This has been a longstanding effort, sustained on a bipartisan basis over many years, and it is paying dividends.

Clearly, however, there is much more to do, and we are rising to the challenge. The aggressive renewable fuels production targets established by the Energy Independence and Security Act of 2007 are predicated on the rapid development and commercialization of cellulosic ethanol and other advanced biofuels. The Food, Conservation, and Energy Act of 2008 (the 2008 Farm Bill) gave USDA important new tools in this area. And very recently, President Obama has announced steps to further his Administration's commitment to advance biofuels research and commercialization

Three weeks ago, on May 5, the President announced the creation of a Biofuels Interagency Working Group co-chaired by USDA, the Environmental Protection Agency (EPA), and the Department of Energy (DOE). This Working Group will coordinate with the National Science and Technology Council's Biomass Research and Development Board in undertaking its work. The President also directed Secretary Vilsack to aggressively accelerate investment in and deployment of biofuels.

USDA is working hard to implement this directive. While my testimony will focus primarily on USDA Rural Development, it should be noted that USDA's commitment to biofuels is department wide. The Forest Service is working to develop the potential of woody biomass, both for direct combustion and as a possible biorefinery feedstock. The Agricultural Research Service conducts and supports research into new and improved feedstocks and production processes. The Farm Service Agency is implementing the Biomass Crop

Assistance Program, which will provide support for the production of dedicated energy crops. The Office of the Chief Economist is implementing a competitively awarded Biodiesel Fuel Education Program to educate government, private entities, and the public about the benefits of biodiesel use. Last but certainly not least, I would like to turn now to the several ways in which USDA Rural Development supports biofuels development.

The President's May 5 statement on the need to refinance some existing biofuels investments was an acknowledgement of the disruptive impact of the global economic recession and recent volatility in commodities markets on the biofuels industry. Funds for such refinancing up to 50 percent of a loan project are available now, upon receipt of a qualified application, from Rural Development's existing Business Programs. No such applications have yet been received but we are aware of several pending applications for refinancing that we are likely to receive in the near future. We will evaluate these on their business merits when they are received.

In addition, looking forward, the 2008 Farm Bill significantly expanded USDA Rural Development's renewable energy portfolio. Rural Development is now in the process of implementing new or expanded programs to provide:

- Loan guarantees for the development, construction, and retrofitting of commercial scale biorefineries;

- Funding to encourage biorefineries to replace the use of fossil fuels in plant operations with renewable biomass;
- Funding to biofuels producers to encourage production of next generation biofuels from biomass and other non-corn feedstocks; and
- Loan guarantees and grants to agricultural producers and rural small businesses for renewable energy production, energy-efficiency investments, and energy audits.

Section 9003: Biorefinery Assistance Program.

The Section 9003: Biorefinery Assistance Program provides loan guarantees for the development, construction and retrofitting of commercial-scale biorefineries producing advanced biofuels.

The future of the biofuels industry lies in the commercialization of second and third generation feedstocks. The Section 9003 Program is a critically important investment in that evolution. The Farm Bill provided \$75 million in mandatory funding for fiscal year 2009 and \$245 million in fiscal year 2010. The President's budget request for Fiscal Year 2010 includes an additional \$17 million in discretionary budget authority for this program.

The Section 9003 is a new program requiring development of a new rule. To accelerate implementation, the program will be administered initially through a Notice of Funding

Availability (NOFA) pending development of new regulations. The 2009 NOFA was published November 20, 2008. Two application windows were announced. The first closed on December 31, 2008.

From Round 1, the first award was made in January, 2009, for an \$80 million loan guarantee for the production of cellulosic ethanol. A second application is currently under review. This is an application for a \$25 million loan guarantee to retrofit a biodiesel refinery to produce second generation biofuel.

The Round 2 application window closed April 30, 2009. Five applications from Round 2 are currently under review. These involve second generation biofuel technologies to produce cellulosic ethanol, biodiesel, and natural gas and electricity from anaerobic digestion. Awards for the second round are projected for September 15, 2009.

Section 9003 Biorefinery Assistance obligation and applications under review

Applications	State	Request Amount (Guarantees)	Status
Round One (12/31/2008)			
Range Fuels, Inc. and Range Fuels Soperton	Georgia	\$80,000,000	Obligated
	Minnesota	\$25,000,000	Under Review
		\$105,000,000	
Round Two (4/30/2009)			
	Iowa	\$15,000,000	Under Review
	New Mexico	\$60,000,000	Under Review
	Massachusetts	\$5,000,000	Under Review
	Wisconsin	\$124,500,000	Under Review
	Michigan	\$10,675,000	Under Review
		\$215,175,000	

(The names of all applicants under review for Section 9003 loan guarantees are withheld pending completion of the review of their application and, if approved, a public announcement.)

A total of 17 Section 9003 applications were received in both rounds. Loan guarantee requests amounted to \$1.05 billion; though not all will qualify, total eligible applicants potentially exceed the \$224 million program allocation for 2009. A breakdown of the applications by amount requested suggests that the greatest number of applicants sought loan guarantees for amounts less than \$50 million. Four of the 6 applications still under review seek loan guarantees amounts of less than \$50 million.

These are the initial responses to a new program, but the first two rounds of applications clearly suggest that the program is well received by small producers.

Section 9003 Biorefinery Assistance applications by amount requested

Requested Amount	Number	Average	Total
<50M	8	18,312,500	146,500,000
50-100M	4	62,959,902	251,839,609
>100M	5	130,626,701	653,133,507
All	17	61,851,360	1,051,473,116

Section 9004: Repowering Assistance.

The Section 9004: Repowering Assistance Program provides for payments to biorefineries (that were in existence at the time the 2008 Farm Bill was passed) to replace fossil fuels used to produce heat or operate biorefineries with renewable biomass.

The Farm Bill provides \$35 million for fiscal year 2009 that will remain available until the funds are exhausted. Funds will be made available, once a rulemaking is issued for this program.

Section 9005: Bioenergy Program for Advanced Biofuels.

The Section 9005: Bioenergy Program for Advanced Biofuels provides for payments to eligible agricultural producers to support and ensure an expanding production of advanced biofuels. The Farm Bill provides \$55 million annually in fiscal years 2009 and 2010, \$85 million in fiscal year 2011, and \$105 million in fiscal year 2012.

Section 9007: Rural Energy for America Program.

The Section 9007: Rural Energy for America Program expands and renames the program formerly called the Renewable Energy Systems and Energy Efficiency Improvements Program (formerly Section 9006). Since the enactment of the first-ever Energy Title in a Farm Bill in 2002, this program has provided grants and loan guarantees to agricultural producers and rural small businesses for more than 1,800 energy efficiency and renewable energy projects ranging from biofuels to wind, solar, geothermal, methane gas recovery, and other biomass. While not limited to biofuels, the Section 9007 Program is nonetheless available on a competitive basis to biofuels producers.

For the Section 9007 Program, the Farm Bill provided \$55 million in mandatory funding for fiscal year 2009, \$60 million for fiscal year 2010, and \$70 million each year for fiscal years 2011 and 2012. It also authorizes discretionary funds. An additional \$5 million in discretionary funding was allocated for fiscal year 2009. The President's budget request for Fiscal Year 2010 includes an additional \$68 million in discretionary budget authority.

Four percent of Section 9007 funding is reserved for Energy Audits and technical assistance. A Notice of Solicitation of Applications (NOSA) for the Energy Audit and technical assistance funding was published March 11, 2009 with an application deadline of June 9, 2009. This is a competitive grant program and the application window is now open. Once all applications have been received they will be reviewed and scored. We anticipate announcing awards by August 1, 2009.

The remainder of Section 9007 funding will be awarded on a competitive basis and will finance investments in energy efficiency and renewable energy production. A Notice of Funds Availability (NOFA) is currently under review. An announcement is anticipated very soon.

In summary, the 2008 Farm Bill provides USDA Rural Development with a suite of programs to spur the deployment of advanced biofuels, support the development of new production technologies, and accelerate the shift to second and third generation feedstocks. Several programs are new and are just now being implemented.

The United States has a compelling need -- for national security, environmental, and energy security reasons -- to enhance our use of renewable fuels. The production of Advanced Biofuels presents an historic economic opportunity for agricultural producers and rural America. The President is committed to seizing that opportunity, and we at USDA Rural Development are working hard to help turn that vision into a reality. Thank you.